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PRIVATIZING RECREATIONAL FACILITIES/SERVICES ON OUR NATIONAL FORESTS
A STEP TOO FAR??
(A Case Study: Newberry National Volcanic Monument)

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This paper was prepared as a student project in partial fulfillment of the requirements of the Professional Development for Outdoor Recreation Management Program at Clemson University. While some of the concepts are based on USDA Forest Service Policy, some are not. The opinions expressed are not those of anyone other than the author.

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ABSTRACT

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TITLE: Privatizing Recreational Facilities/Services on our National Forests - A Step Too Far?? (A Case Study: Newberry National Volcanic Monument)

ABSTRACT: Controversy abounds surrounding public lands ownership and management. Many federal agencies already rely on concessionaires to manage recreational facilities and provide desired services. In the wake of decreasing federal funds for operating/maintaining and construction of such facilities or services, Federal managers are looking to private ventures to help alleviate the shortfall. The concept of public/private venture is where joint public and private sector invest capital in recreation facilities and/or services. Fearing that "control" or quality services may be lost, some publics and managers alike question the concept, especially in national parks and national monuments.

The objective of this paper is to prepare a case study for potential public-private venture at Newberry National Volcanic Monument. Several situations are explored for private industry to partner with the Forest Service in managing and upgrading overnight camping facilities in and adjacent to the nation's newest national monument.

Keywords: privatization, public/private venture, concessionaire, national monument, Granger Thye Act, special uses

EXECUTIVE SUMMARY

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Summary:

This paper's objectives are to:

- * touch on the current controversy surrounding ownership and management of public lands;
- * introduce the concept of public-private venture (PPV);
- * review the history of permitting private business ventures on Forest Service managed lands;
- * summarize desired key recreational opportunities in Newberry National Volcanic Monument (NNVM); and
- * explore the feasibility of utilizing PPV for meeting recreation demand in NNVM.

I approached and researched the problem by:

- interviewing an executive in the private sector specializing in campgrounds;
- organizing and conducting a meeting of FS recreation and special uses specialists;
- making a presentation on the concept of PPV to public agency recreation specialists in Central Oregon;
- involving myself in the review of a draft FS handbook on the PPV concepts;
- reviewing a case study where PPV was applied and an in depth market analysis.
- for NNVM, asking the questions, "Is there a potential business venture (i.e. can a profit be made)?" "Can we achieve the desired, recreation opportunities utilizing PPV as the tool?" "Is there a bonafide recreation demand that will support a large investment of funds?" "What current laws or policy inhibits PPV at Newberry?"
- exploring five, different situations to partially privatize a range of overnight camping (two to three) and day-use (one to five) sites within a larger complex of sites in and adjacent to NNVM.

Table 1 summarizes the cash flow and profit margins for the five situations explored.

<u>TABLE 1:</u>	<u>Net Private</u>	<u>Private Amount</u>	<u>Projected</u>	<u>FS \$ to</u>	
	<u>Income/year</u>	<u>Invested</u>	<u>Profit</u>	<u>Invest</u>	<u>GT Fee</u>
Example 1	-\$191,516	\$1,321,460	-14.5%	\$0	\$42,294
Example 2	- 111,391	1,084,260	-10.3%	709,000	73,614
Example 3	+ 45,067	812,000	+ 5.6%	0	50,232
Example 4	+ 96,582	654,600	+14.8	509,000	67,512
Example 5	+ 59,444	780,000	+ 7.6%	0	51,012

CONCLUSIONS

1. Public-private venture has the potential to play a limited role in providing recreational opportunities at Newberry National Volcanic Monument.

2. Several important points to consider when evaluating public/private venture projects were expressed during meetings and interviews that are the basis for this report (see LITERATURE REFERENCES). Items include:

a) The recreational opportunity or experience that is desired must be well understood. Managers have to be clear about their objectives so that false impressions by the private sector are avoided. To help avoid any "false" starts, do the up front NEPA (irregardless of who funds the work). Involve the permittee in the process but eliminate any "snakes in the grass" before irrevocable commitments are made.

b) We will have to consider non-traditional amenities allowed on FS managed lands to attract interest and for the private sector to be successful. In the Prospectus, establish what the FS will allow to happen. Establish a "range" of desired services, facilities, timeframes, etc. Then ask the private sector to provide proposals. The FS should "build the playing field" in the Prospectus. Let the private sector figure out how to make it work.

c) Look for other ways to potentially leverage the investment needs, using additional (over those explored in this paper) positive cash flow operations within or adjacent to the Monument (i.e. consider expanding the venture to include Lava Lands Visitor Center (with additional retail sales operations), shuttle to Lava Butte, and operation of Lava River Cave; consider combining the Newberry complex O&M/ownership with existing resort business(s); explore interest from other existing private/public businesses already providing similar services (i.e. Oregon State Parks, Land of Lakes RV park, etc.).

3. Changes to some laws and policies are needed to allow some of the assumptions in the paper to be feasible. For example:

a) In special-use permits issued under the authority of the Term Permit Act or the Granger-Thye Act, fees are paid to the FS for using either government owned land and/or government owned facilities. Current fees paid by the concessionaire to the FS for the Newberry complex is based on 10% of the gross receipts (actual percentage was a bid item in the Prospectus).

As proposed in the 1996, Draft PPV Desk Guide, fees paid by the private concessionaire to the FS are calculated as: 6% of the land value on which government improvements are located plus 6% of government-owned improvements present value plus 6% of the land value for the permitted private use. The actual percentage is bid by the concessionaire if a Prospectus is issued. Since this formula is not linked to gross receipts made by the concessionaire, the government does not directly benefit if income increases. It seems reasonable that the formula should be tied in some manner to the gross receipts earned by the concessionaire. It could then act as a hedge against inflation. Granted, if land values increase due to improvements made by the concessionaire, then fees paid to the FS also increase. However, the relative rate of increasing land values seems more static than the level of annual gross receipts earned by the concessionaire.

b) The cash flow generated at sites managed under a GT permit (i.e. sites where ownership of improvements is retained by the FS) is needed to make privatizing any sites in the Newberry complex economically feasible. As a result, for the PPV concept to potentially work at Newberry, the privatized sites and the sites managed under the GT permit must be managed by the same concessionaire. To do this will require the same length of permit for both the GT and Term Permit Act permits.

4. Economic viability in the five example situations for NNVM could be improved by increasing the occupancy rate or length of season for a site to operate (i.e. increase the cash flow) or by adding other income producing elements (i.e. a store, coffee shop, book sales, etc.). One site within the Newberry Complex with year-round access is Prairie campground. Such a site might be conducive to expansion, year-round operation and/or non-traditional vacationing amenities currently not seen on national forest lands (i.e. a covered, heated pool).

5. Economic viability or feasibility might also be improved for a PPV venture by allowing agreed to improvements to be phased in over a specified period of time. The influence of inflation on the "buying power" of money would need to be considered if a phased in approach is pursued.

6. With the increased fee paid to the FS from the concessionaire in several of the Situation 5 examples, comes the increased opportunity to reconstruct aging facilities through landlord maintenance of any GT permit. In addition, if the fee paid by the concessionaire is tied to the gross receipts of the concessionaire (as suggested under 3(a) above), any increases in revenue can be used to replace improvements at sites within the permit over time. The downside to the GT permit is that the replacement cost for improvements remain with the FS.

7. PPV is only a partial solution to meeting the desired capital improvements since overall needs exceed the ability of only using private sector funds. Partnerships and interagency agreements (with agencies like Oregon State Marine Board, Federal Highway Administration (ISTEA funds), etc.) are critical to accomplish total identified capital improvements.

8. Given the declining trend of Federal budgets, it is uncertain on how to reliably schedule needed federal funds for capital improvements in a timely manner.

INTRODUCTION

Newberry National Volcanic Monument (NNVM) was established by Congress on November 5, 1990, "...In order to preserve and protect for present and future generations (Newberry's) remarkable landforms, and to provide for the conservation, protection, interpretation, and enhancement of its ecological, botanical, scientific, scenic, recreational, cultural, and fish and wildlife resources." (Public Law 101-522).

Standards & guidelines (S&Gs) and needed capital improvements for the caldera (the area most heavily used in Newberry for overnight camping) and other portions of the Monument were detailed for separate management zones in a "Comprehensive Management Plan" (USDA-Deschutes National Forest, 1993) and in a more refined "Recreation Master Strategy" (Anderson, 1995). Most of the existing campground and day use facilities are nearing their expected serviceable lifespan (i.e. old and worn out!). Visitors to national monuments and parks have expectations they will find high quality, well-maintained facilities. While a recent shift to concessions operations and maintenance has made a big, positive change, current facilities do not meet the needs and expectations of our visitors.

As a result, this paper's objectives are to:

- * touch on the current controversy surrounding ownership and management of public lands;
- * introduce the concept of public-private venture (PPV);
- * review the history of permitting private business ventures on Forest Service managed lands;
- * summarize desired key recreational opportunities in Newberry National Volcanic Monument (NNVM); and
- * explore the feasibility of utilizing PPV for meeting recreation demand in NNVM.

METHODS

I approached and researched the problem by:

- interviewing an executive in the private sector specializing in campgrounds.
- organizing and conducting a meeting of FS recreation and special uses specialists.
- making a presentation on the concept of PPV to public agency recreation specialists in Central Oregon.
- involving myself in the review of a draft FS handbook on the PPV concepts.
- reviewing a case study where PPV was applied and an in depth market analysis.
- for NNVM, asking the questions, "Is there a potential business venture (i.e. can a profit be made)?" "Can we achieve the desired, recreation opportunities utilizing PPV as the tool?" "Is there a bonafide recreation demand that will support a large investment of funds?" "What current laws or policy inhibits PPV at Newberry?"

THE PPV CONCEPT

Controversy abounds surrounding public lands ownership and management. "During the 19th century, public lands in the United States were held as a pool of commons to be disposed of in an orderly manner, mainly to private ownership. But that philosophy changed in the early days of the 20th Century as national parks [national monuments] and national forests emerged on the landscape amid considerable conflict and controversy." (Iverson, 1995) Public land debates have surfaced periodically throughout the last century. With federal land

comprising 68% of Alaska, 44% of California, 62% of Idaho, 83% of Nevada, and 64% of Utah, controversy surrounding federal land management should come as no surprise. Any management that dominates across the landscape is bound to be argued (Lehman, 1995). Carl Pope (1995), Executive Director of the Sierra Club recently told a group that "government owns land and restricts the use of privately owned land for a simple reason. Land is the skeleton and the circulatory system of a community. It is the blood and bones of our society. Land lies next to other land. Its use, or abuse, effects everyone."

Steeped even deeper in the concern over how public lands are managed, is the use of private business to operate/maintain facilities or provide services on public land. What difference should it make who provides the service or recreational opportunity, provided that the goods and services are desirable and they meet the need of the public and public land managers alike? Are managers concerned that their "control" over the facility or service is somehow being turned completely over to the private entity? If "local control" is better, then who is it better for (Iverson, 1995)?

The demand for many public agencies to provide a range of quality recreation facilities and services has increased beyond the ability to meet the need through conventional means. All indications are that the amount of funding available in Forest Service (FS) budgets for recreation services and facilities (new or rehabilitation of old or operating/maintaining old) will continue to decline. Many federal managers get the feeling that they represent just another agency in a "big sea" of needs. Their situation does not have the uniqueness and ability to stand out in a crowd. As a result, many times managers are perplexed on what to do!?!?! The anticipation that local, state or federal government will quickly come through to fund legitimate needs is gone!!

When operations and maintenance of local campgrounds on the Deschutes National Forest were initially put under special use permit, some comments received back from the public included: "Where are the people in Forest Service uniforms?"; "I pay taxes, so why is a private business now managing Forest Service facilities?". An associated question might be, if some members of the public are uncomfortable with private concessionaires managing Forest Service owned facilities on federal land, is the notion of "privatizing" both the operations & maintenance and ownership of recreational facilities on federal lands, going "a step too far"?

Pilot efforts (in the Southwest Region of the USDA Forest Service) in combining private and federal forces to provide recreational opportunities on public land has shown promise. Joint public and private sector investment in recreation facilities and/or services is commonly referred to as "public private venture" (PPV). PPV can include:

- * planning;
- * design;
- * construction;
- * rehabilitation;
- * operation;
- * maintenance; or
- * management responsibilities.

In PPV, private capital is used to construct new facilities and/or rehabilitate existing Forest Service ones. The Forest Service contributes: the land, existing facilities, the opportunity to furnish services for the venture, and/or some components of the needed facility, like roads, water systems, underground utilities, etc. In an effort to find feasible alternatives for managing recreation facilities in the absence of federal funds, the Forest Service formed

a task force in 1995 to review the feasibility and legal authorities to be able to move forward with the PPV concept. The task force produced a draft PPV Handbook (USDA Forest Service, 1996), outlining the process to follow if interested in pursuing PPV projects. Many of the technical concepts in this paper are taken from the handbook, since it is the most detailed and accurate information available.

PPV success depends on:

- * an identified need for the facilities/services through combined public/private venture;
- * the venture being economically attractive to the private sector (a minimum 10-15% profit must be inherent);
- * capital investment comes primarily from private, as opposed to public;
- * ownership of the facilities can be either private, Forest Service, or transferred from Forest Service to private;
- * land ownership always remains with the federal government; and
- * venture can not be done through traditional means.

Benefits of PPV could include:

- * reducing the amount of federal tax funds for construction and/or operations & maintenance;
- * an opportunity for private venture, resulting in increased employment in the local economy; and
- * the potential for profit to the private sector.

EXISTING AUTHORITIES (Tweed, William C.)

Allowing private business to own and/or operate facilities on federal lands is not a totally new concept. The rules and regulations which allowed special use permits to be secured were established under the Organic Act of 1897. Initially all permits were issued by the General Land Office (GLO) in 1902. The Act allowed permits to be secured for the building and maintenance of sanitariums and hotels at mineral and other springs. The Act also allowed for the leasing of Forest Reserve lands for specified periods of time. The Forest Service (FS) was created in 1905 for the management and administration of the Forest Reserves. As such, lands already leased were transferred to the Forest Service from the GLO. The FS also retained the rules and regulations that granted permits for hotels and sanitariums. Authority for summer recreation residences was also authorized at this time. A 1913 Annual Report noted that thousands of recreation permits had been issued, including such things as pleasure resorts and boat houses [marinas]. The FS recognized that a lack of long term permits discouraged construction of major, permanent facilities. The 1915 Term Occupancy Act permitted the FS to allow private use and development of public lands for terms of up to 30 years by persons wishing to develop summer camps, hotels, or resorts. The most noteworthy controversy regarding National Forest (NF) recreation centered around the proposed development of a privately financed resort and tramway on the Mt Hood NF. Plans were submitted in 1926 by a private developer and included a lodge at Timberline, a ski club and mountain climbing chalets. At the same time a second private company submitted plans for a hotel and tramway to the top of Mt Hood. After much controversy and public debate a special use permit was issued in 1930 to the second company. This firm had no financial backing or capability, thus no facilities were constructed.

Plans were resurrected by the FS, with funding made available through the Public Works Administration. Construction of Timberline was completed in 1937 and ownership and administration was transferred to the FS. Currently Timberline Lodge and Ski area is operated and maintained through a concessionaire special use permit.

.In 1941, the Chief of the FS noted that over 250 winter sports areas existed under special use permit, and they dominated the recreation facilities and services that the Agency provided. Today, 145 alpine ski areas operate on FS lands under the Term Permit Act of 1915 or the NF Ski Area Permit Act of 1986. Although the special uses authorizations for campground concessions have existed for many years, this is an area that has seen tremendous growth in recent years, primarily due to decreasing federal funds for operating & maintaining campgrounds. The Deschutes National Forest alone has gone from one small concession campground in 1992 to 9 major complexes in 1995. The largest, Cascade Lakes, includes 31 campgrounds/day use areas and grossed over \$350,000 in revenue in 1995. Campground concession permits are issued under authority of the Granger Thye (GT) Act of 1950 (USDA-Forest Service, 1993). Permit lengths are currently a maximum of five years. This Act allows the FS to require concessionaires to perform landlord maintenance work for credit in lieu of fees owed to the government. Fees generated and owed to the government can be retained on the Forest where the funds are generated. Funds are invested back into the facilities rather than the fees being returned to the Treasury.

POTENTIAL SITUATIONS TO USE PPV

Since there are established methods under existing authorities to accommodate private investment on National Forest System lands, what real need is there for PPV? The real advantage comes from the opportunity for both private and public entities to work together, pooling resources and funding, to accomplish in total what each party may be unable to achieve independently.

Several examples of PPV are summarized below where public and private capital or facilities can be combined, while distinctly separating ownership of facilities or portions of a facility. The existing authorities previously noted are required in part or in combination, depending on the specifics of the project.

Situation 1 deals with a situation where the FS owns an existing, functional campground. The FS wants to offer its campground for concession management as well as have a new facility constructed and operated & maintained (O&M) by a private concessionaire. A prospectus would be prepared and issued soliciting interest in managing the existing campground, in addition to the construction and O&M of the new facility. The GT Act of 1950 would authorize the use of the existing government-owned facilities. The Term Permit Act of 1915 would authorize the construction and O&M of the new facility.

Situation 2 deals with an instance where the FS owns a partially functional campground which it wants to offer for private reconstruction and/or new construction and operations/maintenance. The FS retains ownership of the underground utilities and road system which are fully functional and are in good condition. Site furnishings are unsafe and will need replacing. Expansion of the campground is desired (at the sole expense of the private entity) to increase cash flow and additional overnight capacity for the recreating public. Operations and maintenance of all facilities would be performed by the private concessionaire. A prospectus would be prepared and issued requesting proposals for the reconstruction/construction and O&M of the existing facility, as well as the expansion and O&M of the expanded facility. Clear identification of any existing FS improvements is critical. The Term Permit Act would authorize the construction and O&M of the campground reconstruction and expansion, including, if applicable, rehabilitated or ownership-transferred components. The GT Act would authorize the O&M of the utilities and road system. Federal Property Management regulations would be used to dispose of government property. Government Services Administration (GSA) oversees this process and their approval to sell government-owned property is needed prior to issuance of a prospectus.

Situation 3 finds the FS owning a partially functional campground in which it wants to solicit private rehabilitation and/or new construction. The FS wants to sell its ownership in any existing site amenities to a private concessionaire. Any unusable items are disposed of. Valuation of the existing FS improvements is required. Then a prospectus is prepared and issued for the purchase of the existing improvements, disposal of any unusable components (if desired) and the construction and O&M of any new facility. The Term Permit Act would authorize the entire operation, while Federal Property Management regulations would govern the sale of FS owned property.

Situation 4 finds the FS wanting to gradually phase out of its ownership of an existing facility. A concessionaire operates and maintains the facility and gains ownership over an agreed to period of time. This situation is similar to Situations 1 and 2 since both the GT Act (initially) and Term Permit Act (lastly) would be used to authorize the operation. The prospectus would outline the period of time for the FS to phase out of its ownership in the facility.

Situation 5 finds the FS seeking a private sector investor to develop or reconstruct a facility. The FS may participate in capital improvements to make the situation an attractive investment opportunity. Procedures are similar to Situation 2, in that a prospectus is issued soliciting bids for the proposed reconstruction/construction and O&M of the existing facility. Both the GT Act (existing improvements and new improvements financed with federal funds) and the Term Permit Act (new improvements financed by private funds) would be used to authorize the venture.

The remaining portion of this paper will explore PPV concepts for viability and potential implementation in a portion of Newberry National Volcanic Monument.

A CASE STUDY: NEWBERRY NATIONAL VOLCANIC MONUMENT

Background

Newberry National Volcanic Monument (NNVM) is situated in Deschutes County, Oregon near the towns of LaPine and Bend in the center of the state (see Figure 1). Established by Congress on November 5, 1990, the Monument was designated "...In order to preserve and protect for present and future generations (Newberry's) remarkable landforms, and to provide for the conservation, protection, interpretation, and enhancement of its ecological, botanical, scientific, scenic, recreational, cultural, and fish and wildlife resources." (Public Law 101-522).

The Monument includes about 50,000 acres of ponderosa pine forests, lava flows, and two alpine lakes in a volcanic caldera. These lakes are home to trophy-sized trout and kokanee salmon, and the caldera itself is a wildlife refuge supporting a wide range of species such as elk, deer, bear, and bald eagles. The highest point on the caldera rim is 7,985-foot Paulina Peak, offering spectacular views of the Oregon Cascades and across the high desert. A massive obsidian flow near the peak offers visitors a chance to hike among large chunks of the shiny black glass. The Monument is a living laboratory of volcanic and ecological forces, and scientists from all over the world come here to study a landscape carved by a half million years of volcanic eruptions. The Monument is managed by the Bend-Fort Rock Ranger District of the Deschutes National Forest.

Recreational activities in the Monument include camping, hiking, biking, sightseeing, horseback riding, boating, fishing, and in the winter,

cross-country skiing, and snowmobiling. Most of these activities occur within Newberry caldera. The current infrastructure in Newberry caldera and adjacent area includes 11 campgrounds, 8 day use areas and 2 resorts. The resorts are privately owned and operated under term permits authorized by the Term Permit Act of 1915 (as amended). The campgrounds and day use areas are owned by the Forest Service but operated and maintained by a private concessionaire under a term permit authorized by the Granger-Thye (GT) Act Of 1950.

Most of the campground and day use facilities are nearing their expected serviceable lifespan (i.e. old and worn out!). Visitors to national monuments and parks have expectations they will find high quality, well-maintained facilities. While a recent shift to concessions operations and maintenance has made a big, positive change, current facilities do not meet the needs and expectations of our visitors.

Standards & guidelines (S&Gs) and needed capital improvements for the caldera and other portions of the Monument were detailed for separate management zones in a "Comprehensive Management Plan" (USDA-Deschutes National Forest, 1993) and in a more refined "Recreation Master Strategy" (Anderson, 1995). Based on comments from the public and recreational trend data (national, state, and local), the following recommendations in the CMP are important reminders:

- * Keep overnight use in the caldera at about the present level.
- * Focus on upgrading the quality and serviceability of current facilities (likely to include some redesign, expansion or relocation) as the highest priority capital investment priority. Where feasible, facility renovations, expansions or new developments should include measures to buffer noise and visual impact of vehicles in the vicinity of developed sites and high use areas.
- * Provide for a range of high-quality overnight facilities and opportunities among the Paulina and East Lakeside Units. Upgrade and/or expand existing campgrounds if necessary to provide a high quality experience. RV hookups may be provided in a portion of the developed camping areas designated as rural, if demand warrants. In the East Lakeside Unit, redesign campgrounds where appropriate to increase opportunities for privacy and low-key car camping. Re-design Paulina Lake campgrounds to operate at higher density and occupancy.
- * Limit the number of resorts to the two presently in the caldera.
- * Manage for both "Rural" and "Roaded Natural" recreation opportunity spectrum (ROS) classes.
- * Locate, design, and manage facilities to reduce conflicts between overnight visitors and shorter-stay, daytime visitors.
- * Promote opportunities and attractions for non-motorized boating uses on East Lake.
- * Provide for a range of accessible opportunities to meet the intent of the Americans with Disabilities Act and consistent with guidelines in "Universal Access to Outdoor Recreation: A Design Guide" (Driskell, 1993).

PPV Analysis

The CMP and RMS for NNVM identified about 25 capital investment projects to provide for the "long term stability and serviceability" of the Monument. Projects include recreational facilities, roads and trailheads. Estimated funding to accomplish these projects ranges from \$50 to \$100 million. Funding to provide for these identified improvements will not come quickly from the public sector, as Congress is severely curtailing operations & maintenance and capital investment funding for recreation programs. As a result, the PPV concept could help to provide some of the desired improvements.

The CMP established priorities for initiating capital improvements in NNVM. The top priority is the renovation, expansion, or enhancement of existing overnight and day-use recreational facilities in Newberry Caldera. Based on this criteria, the PPV analysis investigates examples which intuitively seem to have potential to be profitable. These examples can also meet the CMP considerations shown on page 5 of this report.

As previously mentioned, campgrounds and day-use areas in and adjacent to Newberry Caldera are currently managed as a complex by a private concessionaire. This analysis uses the current cash flow from the existing operation as its basis (see Appendix A). Potential changes to the current operation are also analyzed for increasing revenue and increasing profitability of any venture (see Appendix B). Analyses are prepared to approximate actual situations. However, data may need refinement if management decides to pursue one of these examples and issue a prospectus.

A simple Economic Viability Analysis is developed to show the cash flow and profitability of five examples of the PPV Situation 5 previously described. Accepted accounting principles are used to build the analysis. Depreciation of new improvements nor the effect of inflation is factored into these examples to ease the comparison of alternatives. I chose to evaluate Situation 5 as it closely approximates the existing and desired status at NNVM. Economic analyses of the the other 4 Situations would similar to those of Situation 5.

Example 1 is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 5 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Cinder Hill campground and day-use area;
- d) Paulina Falls day-use area; and
- e) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 5 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$112,300 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1. Appendix C displays a development profile for these improvements.

2) Projected profit for this example is based on data in Appendices A-D. If current annual income of the venture remains at a level similar to the existing concessions operation, none of the desired improvements are feasible. Therefore, this example increases the current cash flow using all options discussed in Appendix B, realizing that some current laws/policies would need changing.

Economic Viability for Example 1:

Total Income	=	\$601,370 (uses 10% Occupancy Rate increase)
Debt	=	- 620,872 (privatizes 5 sites)
O&M Costs	=	- 119,400 (annual O&M cost minus the fee-see Appdx A)
Fee	=	- 52,614 (GT portion of the fee = \$42,294)
Net Income/year	=	- 191,516
		(-14.5 % profit)

Example 2 is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 5 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Cinder Hill campground and day-use area;
- d) Paulina Falls day-use area; and
- e) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 5 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$112,300 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility, except as noted in 2) below. New improvements are funded in year 1. Appendix C displays a development profile for these improvements.

2) FS agrees to fund and complete the site-specific decisions required by the National Environmental Policy Act. FS also agrees to provide funding to reconstruct/construct road systems and utilities for the above 5 sites. Total estimated development costs for the FS is \$709,000 (planning required by the National Environmental Policy Act (NEPA) = \$187,000 and roads/utilities = \$522,000).

3) Projected profit for this example is based on data in Appendices A-D. If current annual income of the venture remains at a level similar to the existing concessions operation, none of the desired improvements are feasible. Therefore, this example increases the current cash flow using options discussed in Appendix B, realizing that some current laws/policies would need changing.

Economic Viability for Example 2:

Total Income	=	\$601,370 (uses 10% Occupancy Rate increase)
Debt	=	- 509,427 (privatizes 5 sites. FS funds NEPA/roads/utilities for the 5 sites)
O&M Costs	=	- 119,400 (annual O&M cost minus the fee-see Appdx A)
Fee	=	- 83,934 (GT portion of the fee = \$73,614)
Net Income/year	=	- 111,391
		(-10.3 % profit)

Example 3 is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 4 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Paulina Falls day-use area; and
- d) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 4 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$64,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1. Appendix C displays a development profile for these improvements.

2) Projected profit for this example is based on data in Appendices A-D. If current annual income of the venture remains at a level similar to the existing concessions operation, none of the desired improvements are feasible. Therefore, this example increases the current cash flow using options discussed in Appendix B, realizing that some current laws/policies would need changing.

Economic Viability for Example 3:

Total Income	=	\$601,370 (uses 10% Occupancy Rate increase)
Debt	=	- 381,391 (privatizes 4 sites)
O&M Costs	=	- 119,400 (annual O&M cost minus the fee-see Appdx A)
Fee	=	- 55,512 (GT portion of the fee = \$50,232)
Net Income/year	=	45,067
(5.6 % profit)		

Example 4 is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 4 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Paulina Falls day-use area; and
- d) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 4 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$64,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility, except as noted in 2) below. New improvements are funded in year 1. Appendix C displays a development profile for these improvements.

2) FS agrees to fund and complete the site-specific decisions required by the National Environmental Policy Act. FS also agrees to provide funding to reconstruct/construct road systems and utilities for the above 4 sites. Total estimated development costs for the FS is \$509,000 (NEPA = \$137,000 and roads/utilities = \$372,000).

3) Projected profit for this example is based on data in Appendices A-D. If current annual income of the venture remains at a level similar to the existing concessions operation, none of the desired improvements are feasible. Therefore, this example increases the current cash flow using options discussed in Appendix B, realizing that some current laws/policies would need changing.

Economic Viability for Example 4:

<u>Total Income</u>	= \$601,370 (uses 10% Occupancy Rate increase)
<u>Debt</u>	= - 307,556 (privatizes 4 sites. FS funds NEPA/roads/utilities for the 4 sites)
<u>O&M Costs</u>	= - 119,400 (annual O&M cost minus the fee-see Appdx A)
<u>Fee</u>	= - 77,832 (GT portion of the fee = \$67,512)
<u>Net Income/year</u>	= 96,582
<u>(14.8 % profit)</u>	

Example 5 is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 3 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area; and
- c) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 3 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$55,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1. Appendix C displays a development profile for these improvements.

2) Projected profit for this example is based on data in Appendices A-D. If current annual income of the venture remains at a level similar to the existing concessions operation, none of the desired improvements are feasible. Therefore, this example increases the current cash flow using options discussed in Appendix B, realizing that some current laws/policies would need changing.

Economic Viability for Example 5:

<u>Total Income</u>	= \$601,370 (uses 10% Occupancy Rate increase)
<u>Debt</u>	= - 366,474 (privatizes 3 sites)
<u>O&M Costs</u>	= - 119,400 (annual O&M cost minus the fee-see Appdx A)
<u>Fee</u>	= - 56,052 (GT portion of the fee = \$51,012)
<u>Net Income/year</u>	= 59,444
<u>(7.6 % profit)</u>	

Table 1 summarizes the cash flow and profit margins for Examples 1-5.

<u>TABLE 1:</u>	<u>Net Private</u> <u>Income/year</u>	<u>Private Amount</u> <u>Invested</u>	<u>Projected</u> <u>Profit</u>	<u>FS \$ to</u> <u>Invest</u>	<u>GT Fee</u>
Example 1	-\$191,516	\$1,321,460	-14.5%	\$0	\$42,294
Example 2	- 111,391	1,084,260	-10.3%	709,000	73,614
Example 3	+ 45,067	812,000	+ 5.6%	0	50,232
Example 4	+ 96,582	654,600	+14.8	509,000	67,512
Example 5	+ 59,444	780,000	+ 7.6%	0	51,012

CONCLUSIONS

1. Public-private venture has the potential to play a limited role in providing recreational opportunities at Newberry National Volcanic Monument.

2. Several important points to consider when evaluating public/private venture projects were expressed during meetings and interviews that are the basis for this report (see LITERATURE REFERENCES). Items include:

a) The recreational opportunity or experience that is desired must be well understood. Managers have to be clear about their objectives so that false impressions by the private sector are avoided. To help avoid any "false" starts, do the up front NEPA (irregardless of who funds the work). Involve the permittee in the process but eliminate any "snakes in the grass" before irrevocable commitments are made.

b) We will have to consider non-traditional amenities allowed on FS managed lands to attract interest and for the private sector to be successful. In the Prospectus, establish what the FS will allow to happen. Establish a "range" of desired services, facilities, timeframes, etc. Then ask the private sector to provide proposals. The FS should "build the playing field" in the Prospectus. Let the private sector figure out how to make it work.

c) Look for other ways to potentially leverage the investment needs, using additional (over those explored in this paper) positive cash flow operations within or adjacent to the Monument (i.e. consider expanding the venture to include Lava Lands Visitor Center (with additional retail sales operations), shuttle to Lava Butte, and operation of Lava River Cave; consider combining the Newberry complex O&M/ownership with existing resort business(s); explore interest from other existing private/public businesses already providing similar services (i.e. Oregon State Parks, Land of Lakes RV park, etc.).

3. Changes to some laws and policies are needed to allow some of the assumptions in the paper to be feasible. For example:

a) In special-use permits issued under the authority of the Term Permit Act or the Granger-Thye Act, fees are paid to the FS for using either government owned land and/or government owned facilities. Current fees paid by the concessionaire to the FS for the Newberry complex is based on 10% of the gross receipts (actual percentage was a bid item in the Prospectus).

As proposed in the 1996, Draft PPV Desk Guide, fees paid by the private concessionaire to the FS are calculated as: 6% of the land value on which government improvements are located **plus** 6% of government-owned improvements present value **plus** 6% of the land value for the permitted private use. The actual percentage is bid by the concessionaire if a Prospectus is issued. Since this formula is not linked to gross receipts made by the concessionaire, the government does not directly benefit if income increases. It seems reasonable that the formula should be tied in some manner to the gross receipts earned by the concessionaire. It could then act as a hedge against inflation. Granted, if land values increase due to improvements made by the concessionaire, then fees paid to the FS also increase. However, the relative rate of increasing land values seems more static than the level of annual gross receipts earned by the concessionaire.

b) The cash flow generated at sites managed under a GT permit (i.e. sites where ownership of improvements is retained by the FS) is needed to make privatizing any sites in the Newberry complex economically feasible. As a result, for the PPV concept to potentially work at Newberry, the privatized sites and the sites managed under the GT permit must be managed by the same concessionaire. To do this will require the same length of permit for both the GT and Term Permit Act permits.

4. Economic viability in the five example situations for NNVM could be improved by increasing the occupancy rate or length of season for a site to operate (i.e. increase the cash flow) or by adding other income producing elements (i.e. a store, coffee shop, book sales, etc.). One site within the Newberry Complex with year-round access is Prairie campground. Such a site might be conducive to expansion, year-round operation and/or non-traditional vacationing amenities currently not seen on national forest lands (i.e. a covered, heated pool).

5. Economic viability or feasibility might also be improved for a PPV venture by allowing agreed to improvements to be phased in over a specified period of time. The influence of inflation on the "buying power" of money would need to be considered if a phased in approach is pursued.

6. With the increased fee paid to the FS from the concessionaire in several of the Situation 5 examples, comes the increased opportunity to reconstruct aging facilities through landlord maintenance of any GT permit. In addition, if the fee paid by the concessionaire is tied to the gross receipts of the concessionaire (as suggested under 3(a) above), any increases in revenue can be used to replace improvements at sites within the permit over time. The downside to the GT permit is that the replacement cost for improvements remain with the FS.

7. PPV is only a partial solution to meeting the desired capital improvements since overall needs exceed the ability of only using private sector funds. Partnerships and interagency agreements (with agencies like Oregon State Marine Board, Federal Highway Administration (ISTEA funds), etc.) are critical to accomplish total identified capital improvements.

8. Given the declining trend of Federal budgets, it is uncertain on how to reliably schedule needed federal funds for capital improvements in a timely manner.

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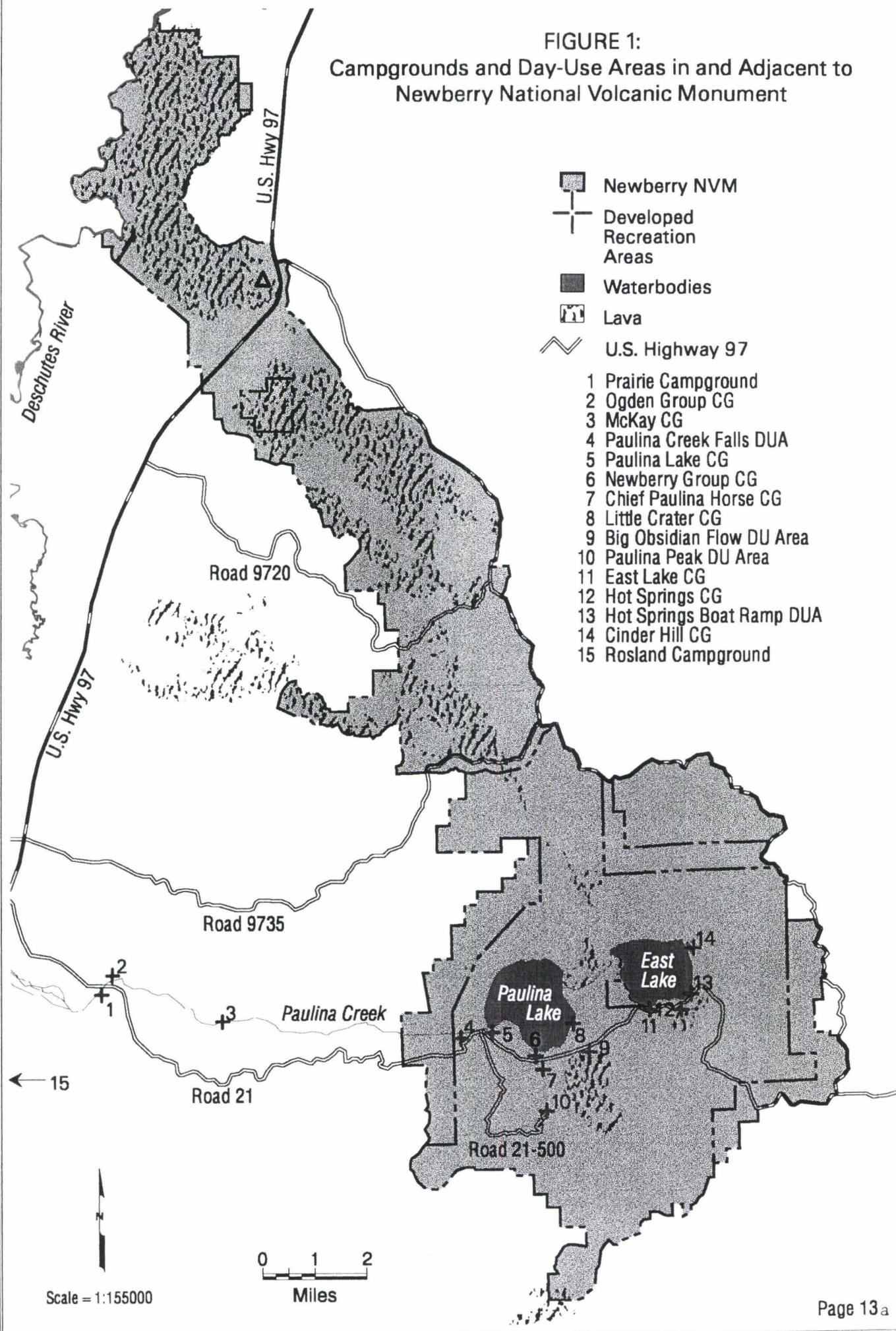
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FIGURE 1:
Campgrounds and Day-Use Areas in and Adjacent to
Newberry National Volcanic Monument



APPENDIX A: Current Situation

The following data was compiled from information provided by the existing private concessionaire for the Newberry Complex (Northwest Land Management-NLM) unless otherwise noted. Forest Service data was gathered during the 1994 season. NLM did not collect day use information.

Occupancy Rate Average by Campground

	NLM (1995 data)	FS	Day Use
Paulina Lake:	60% for season	50% peak season average	33%
Little Crater:	78% "	80% "	18%
East Lake:	74% "	60% "	17%
Cinder Hill:	25% "	20% "	19%
Prairie:	20% "	25% "	N/A
Chief Paulina:		20% "	N/A
Rosland:	4%	19% "	N/A
McKay Crossing:*	4%	43% "	N/A
Newberry Group:		22% "	N/A
Ogden Group:	5%		
Hot Springs:**	N/A		
North Cove: ***	N/A		

* Estimate only. Accurate records were not kept for McKay Crossing during the 1995 season.

** Hot Springs is currently used for overflow from other campgrounds on busy, holiday weekends. The site is only used about 5 nights per season, with occupancy estimated at only about 1%.

*** North Cove is a non-fee campground.

Day use totals for the 1994 season (based on FS random sampling data), including day use sites not associated with campgrounds: 72,795.

Camping Costs

Camping at all caldera campgrounds is \$11.00/night, \$5.00/night per extra vehicle. Premium lakeside sites at these campgrounds is \$13.00/night (premium site fee was not implemented until late in the 1995 season-September). The number of premium sites per campground is as follows:

Paulina Lake:	10
Little Crater:	22
East Lake:	10
Cinder Hill:	20

Cost per night at Prairie and Rosland campgrounds is \$7.00. Ogden Group Camp is \$50.00/night; Newberry Group Camp is \$55.00/night for site A, and \$85.00/night for sites B and C. Chief Paulina Horse Camp is \$11.00/night. Currently, there is no charge at McKay Crossing campground. It is expected that a \$5.00/night/vehicle charge will be implemented in 1997.

The RV dump station in the caldera is \$3.00/use.

Firewood is also sold by camp hosts at \$5.00/bundle.

Length of Season

Use seasons are divided into summer and winter at day use and camping areas. Summer season is mid-May to October 30 (160 days) for these campgrounds: Prairie, Rosland, Ogden Group, and McKay. Summer season is mid-May to mid-September (120 days) for these campgrounds: Paulina Lake, Little Crater, East Lake, Cinder Hill, Prairie, Rosland, Ogden Group, and McKay, and all Day-Use areas. Summer season is mid-June to mid-September (90 days) for Chief Paulina and Newberry Group campgrounds. Winter season is November 1 to May 1.

NLM Income

Gross income for the Newberry Complex for the 1995 season was \$155,321 (derived from NLM's annual income summary sheet provided to the District). Income was generated as follows:

Cash Sales:	\$135,310
Extra Vehicle Fee:	13,038
Reservation Sales:	2,721
Camp Stamps:	121
Dump Fee:	1,831
Uncollected Accounts:	163
Firewood Sales:	2,139

NLM Costs (estimated by Les Moscoso, Permit Administrator) = \$135,000

Personnel	(\$58,880 = 9 workers & 1 coordinator, mid-April to September 30)
Vehicles	(\$11,000 = 2 vehicles for 5.5 months @ \$1,000/month)
Supplies	(\$ 7,000)
Utilities	(\$16,100 = phone, toilet pumping, water tests, power, garbage)
Insurance	(\$26,500)
SUBTOTAL	\$119,400
Current GT fee (10% of gross income)	= \$15,532
TOTAL	\$134,932

APPENDIX B: Potential Increases to Cash Flow

The level of current cash flow of the concessionaire managing the Newberry Complex does not allow making desired capital improvements. Ways to potentially increase the cash flow include:

- 1) Charge an entrance use fee to Newberry Caldera @ \$3.00 per each x 100,000 yearly visitors = \$300,000. The GT Act allows us to permit a concessionaire to charge such a fee in return for agreed to O&M work. The assumption in this paper is that 100% of the entrance fees would be treated as income to the concessionaire.
- 2) Premium sites and associated higher fees were not initiated until late in the 1995 operating season. Projected income from a full season of use (using premium site fees and current average occupancy rates) is developed below. It is assumed that premium sites will receive 100% occupancy.

Projected Income

Based on a basic use fee of \$13.00 per premium site (\$6.50 for Golden Age Passport) and \$10.00 per regular site (\$5.00 for Golden Age Passport). Group campgrounds are shown separately and show total annual income due to a different and higher fee structure.

Premium Sites

Campers with Golden Age Discount

Paulina Lake	120 days x 10% occupancy x \$6.50/site x 10 sites =	\$ 780
Little Crater	120 days x 10% occupancy x \$6.50/site x 22 sites =	\$1,716
East Lake	120 days x 10% occupancy x \$6.50/site x 10 sites =	\$ 780
Cinder Hill	120 days x 10% occupancy x \$6.50/site x 20 sites =	\$1,560
		<u>\$4,836</u>

Campers without Golden Age Discount

Paulina Lake	120 days x 90% occupancy x \$13.00/site x 10 sites =	\$14,040
Little Crater	120 days x 90% occupancy x \$13.00/site x 22 sites =	\$30,888
East Lake	120 days x 90% occupancy x \$13.00/site x 10 sites =	\$14,040
Cinder Hill	120 days x 90% occupancy x \$13.00/site x 20 sites =	\$28,080
		<u>\$87,048</u>

Regular Sites

Campers with Golden Age Discount

Paulina Lake	120 days x 6% occupancy x \$5.50/site x 55 sites =	\$ 2,178
Little Crater	120 days x 8% occupancy x \$5.50/site x 38 sites =	\$ 2,006
East Lake	120 days x 7% occupancy x \$5.50/site x 19 sites =	\$ 878
Hot Springs	5 days x 1% occupancy x \$5.50/site x 50 sites =	\$ 1,375
Cinder Hill	120 days x 2% occupancy x \$5.50/site x 90 sites =	\$ 1,188
Prairie	160 days x 2% occupancy x \$3.50/site x 17 sites =	\$ 190
Rosland	160 days x 1% occupancy x \$3.50/site x 11 sites =	\$ 62
Mckay	160 days x 1% occupancy x \$3.50/site x 10 sites =	\$ 56
		<u>\$ 7,933</u>

Campers without Golden Age Discount

Paulina Lake	120 days x 50% occupancy x \$11.00/site x 55 sites =	\$36,300
Little Crater	120 days x 70% occupancy x \$11.00/site x 38 sites =	\$35,112
East Lake	120 days x 60% occupancy x \$11.00/site x 19 sites =	\$15,048
Hot Springs	5 days x 1% occupancy x \$11.00/site x 50 sites =	\$ 2,750
Cinder Hill	120 days x 20% occupancy x \$11.00/site x 90 sites =	\$23,760
Prairie	160 days x 18% occupancy x \$ 7.00/site x 17 sites =	\$ 3,427
Rosland	160 days x 3% occupancy x \$ 7.00/site x 11 sites =	\$ 370
Mckay	160 days x 3% occupancy x \$ 5.00/site x 10 sites =	\$ 240
		<u>\$110,449</u>

Group Campgrounds

Chief Paulina	160 days x 20% occupancy x \$11.00/site x 14 sites =	\$ 4,928
Newberry Group	90 days x 22% occupancy x \$75.00/site x 3 sites =	\$ 4,455
Ogden Group	160 days x 5% occupancy x \$50.00/site x 3 sites =	\$ 1,200
		<u>\$10,583</u>

Projected Gross Income from overnight use:	=	\$223,599
Non-campgrounds receipts (see Appendix A)	=	20,000
TOTAL	=	243,599

3) If the average overnight Occupancy Rate increased by 10, 15 or 20 percent, the resulting increases in cash flow are estimated to be:

10% =	\$ 57,770
15% =	81,260
20% =	104,820

FAMILY CAMPGROUNDS

	<u>10%</u>	<u>15%</u>	<u>20%</u>
P.Lake	\$10,890	16,335	21,780
L.Crater	7,524	11,286	15,048
E.Lake	3,762	5,643	7,524
C.Hill	17,820	26,730	35,640
Prairie	2,856	4,284	5,712
Rosland	1,848	2,772	3,696
McKay	1,360	2,040	2,720
Totals	<u>\$46,060</u>	<u>69,090</u>	<u>92,120</u>

GROUP CAMPGROUNDS

	<u>10%</u>	<u>15%</u>	<u>20%</u>
Chief P.	\$5,420	5,670	5,910
Newberry	4,900	5,120	5,350
Ogden	1,320	1,380	1,440
Totals	<u>11,640</u>	<u>12,170</u>	<u>12700</u>

APPENDIX C: Development Costs and Fees

DEVELOPMENT COSTS

Costs are estimated for facilities to be improved using data generated from Forest Service Capital Investment Program (CIP) schedules where available. Costs are estimated from similar CIP projects where project costs were not available from developed schedules. Estimates are in thousands of dollars.

	Forest Service			OR Marine Brd*	Private	Total
	NEPA	Rds/Util	Totl		S/D/C**	
Paulina CG Complex	65	242	307	177	2,081	2,565
Little Crater CG/dayuse	40	100	140	100	710	950
Cinder Hill CG/day-use	50	150	200	200	2,100	2,500
Paulina Falls Day-Use	12	0	12	N/A	138	150
B.Obsid. Flow Day-Use	20	30	50	N/A	280	330
Totals:	187	522	709	477	5,309	6,495

* Oregon State Marine Board has willingly partnered with the Forest Service on projects involving waterways (i.e. boat ramps, docks, etc...) used by the general public.

** Survey/Design/Construction

Example 1- Development Profile

A "development profile" is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 5 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Cinder Hill campground and day-use area;
- d) Paulina Falls day-use area; and
- e) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 5 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$112,300 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1.

2) The private concessionaire makes a 20% downpayment and borrows the remaining 80% of the funds needed to:

- a) purchase the existing improvements on the 5 sites in question, and
- b) finance the required new improvements.

- . Loan = $(80\% \times \$6,607,300) @ 10\%$ for 20 years = \$620,872 debt service/year.
20% downpayment = \$1,321,460.

Example 2- Development Profile

A "development profile" is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 5 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Cinder Hill campground and day-use area;
- d) Paulina Falls day-use area; and
- e) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 5 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$112,300 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility, except as noted in 2) below. New improvements are funded in year 1.

2) FS agrees to fund and complete the site-specific decisions required by the National Environmental Policy Act. FS also agrees to provide funding to reconstruct/construct road systems and utilities for the above 5 sites. Total estimated development costs for the FS is \$709,000 (NEPA = \$187,000 and roads/utilities = \$522,000).

3) The private concessionaire makes a 20% downpayment and borrows the remaining 80% of the funds needed to:

- a) purchase the existing improvements on the 5 sites in question, and
- b) finance the required new improvements.

Loan = $(80\% \times \$5,421,300) @ 10\%$ for 20 years = \$509,427 debt service/year.
20% downpayment = \$1,084,260.

Example 3- Development Profile

A "development profile" is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 4 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Paulina Falls day-use area; and
- d) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 4 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$64,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1.

- 2) The private concessionaire makes a 20% downpayment and borrows the remaining 80% of the funds needed to:
 - a) purchase the existing improvements on the 5 sites in question, and
 - b) finance the required new improvements.

Loan = $(80\% \times \$4,059,000) @ 10\% \text{ for } 20 \text{ years} = \underline{\$381,391 \text{ debt service/year.}}$
20% downpayment = \$812,000.

Example 4- Development Profile

A "development profile" is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 4 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area;
- c) Paulina Falls day-use area; and
- d) Big Obsidian Flow day-use area.

Ownership of existing improvements at the 4 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$64,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility, except as noted in 2) below. New improvements are funded in year 1.

2) FS agrees to fund and complete the site-specific decisions required by the National Environmental Policy Act. FS also agrees to provide funding to reconstruct/construct road systems and utilities for the above 4 sites. Total estimated development costs for the FS is \$509,000 (NEPA = \$137,000 and roads/utilities = \$372,000).

3) The private concessionaire makes a 20% downpayment and borrows the remaining 80% of the funds needed to:

- a) purchase the existing improvements on the 5 sites in question, and
- b) finance the required new improvements.

Loan = $(80\% \times \$3,273,000) @ 10\% \text{ for } 20 \text{ years} = \underline{\$307,556 \text{ debt service/year.}}$
20% downpayment = \$654,600.

Example 5- Development Profile

A "development profile" is prepared using the following assumptions.

1) Concessionaire operates and maintains all campgrounds and day use areas in the existing complex, as authorized under the GT Act. In addition, the FS requires the concessionaire to upgrade (to agreed to standards and design) the following 3 sites (based on priorities established in the CMP and RMS):

- a) Paulina campground and day-use area;
- b) Little Crater campground and day-use area; and
- c) Big Obsidian Flow day-use area.

- Ownership of existing improvements at the 3 sites is transferred to the private concessionaire in year 1 of the permit. Cost to the concessionaire of the existing improvements is \$55,000 (see Appendix D). Funding for the new improvements is the private concessionaire's responsibility. New improvements are funded in year 1.

2) The private concessionaire makes a 20% downpayment and borrows the remaining 80% of the funds needed to:

- a) purchase the existing improvements on the 5 sites in question, and
- b) finance the required new improvements.

Loan = $(80\% \times \$3,900,000)$ @ 10% for 20 years = \$366,474 debt service/year.
20% downpayment = \$780,000.

FEES

Fees are paid to the FS for using either government owned land and/or government owned facilities. Current fees paid by the concessionaire to the FS is based on 10% of the gross receipts of the Newberry complex (actual percentage is a bid item in the Prospectus).

As proposed in the 1996, Draft PPV Desk Guide, fees paid by the private concessionaire to the FS are calculated as: 6% of the land value on which government improvements are located **plus** 6% of government-owned-improvements present value **plus** 6% of the land value for the permitted private use. The actual fee is bid by the concessionaire if a Prospectus is issued. For purposes of this analysis, the new formula is utilized for determining the fee paid to the FS.

Appraised Land Value = \$2,000 per acre (Meyer and Wessler, 1996) for the proposed type of use in the Newberry Crater area.

Land area of the current Newberry Complex permit is 283.5 acres. Land area of the 5 sites proposed to privatize in this analysis is:

Paulina CG complex:	20 acres
Little Crater CG/day-use:	21 acres
Cinder Hill CG/day-use:	42 acres
Paulina Falls day-use:	2 acres
Big Obsidian Flow day-use:	1 acre.

Example 1 Fee = $\$52,614 = ((6\% \times 197.5 \text{ ac} \times \$2,000/\text{ac}) + (6\% \times \$309,900) + (6\% \times \$2,000/\text{ac} \times 86 \text{ ac permitted for private use}))$.
(\$42,294 = portion available for GT work)

Example 2 Fee = $\$83,934 = ((6\% \times 197.5 \text{ ac} \times \$2,000/\text{ac}) + (6\% \times (\$309,900 + \$522,000)) + (6\% \times \$2,000/\text{ac} \times 86 \text{ ac permitted for private use}))$.
(\$73,614 = portion available for GT work)

Example 3 Fee = $\$55,512 = ((6\% \times 239.5 \text{ ac} \times \$2,000/\text{ac}) + (6\% \times \$358,200) + (6\% \times \$2,000/\text{ac} \times 44 \text{ ac permitted for private use}))$.
(\$50,232 = portion available for GT work)

Example 4 Fee = \$77,832 = ((6% x 197.5 ac x \$2,000/ac) + (6% x (\$358,200 + \$372,000)) + (6% x 86 ac permitted for private use x \$2,000/ac)).
(\$67,512 = portion available for GT work)

Example 5 Fee = \$56,052 = ((6% x 241.5 ac x \$2,000/ac) + (6% x \$367,200) + (6% x \$2,000/ac x 42 ac permitted for private use)).
(\$51,012 = portion available for GT work)

APPENDIX D: Existing Facilities Valuation

Most existing improvements of sites in the current Newberry Complex are 20-30 years old, nearing the end of their expected lifespan. For the purposes of this analysis, each site's current value is estimated to be 10% of the site's replacement cost. Because of their newer construction, several exceptions are valued at a higher percentage of their replacement cost. These include Newberry Group (90%), Ogden Group Campground (80%), Paulina Peak day-use area (70%), and Chief Paulina Horse Camp (50%).

Resulting estimated current values of each site are as follows:

<u>Site</u>	<u>Estimated Present Value (dollars)</u>
Paulina Creek Falls day-use area	9,000
Paulina Lake day-use area	4,600
Little Crater day-use area	1,400
Hot Springs Boat Ramp/day-use area	9,100
Big Obsidian Flow day-use area	3,800 (no trail/interp signs)
Paulina Peak day-use area	24,150
Paulina Lake Campground	23,400
Little Crater Campground	21,800
East Lake Campground	20,800
Hot Springs Campground	14,200
Cinder Hill Campground	48,300
Chief Paulina Horse Campground	38,850
Newberry Group Campground	100,900
Ogden Group Campground	72,700
Prairie Campground	18,100
Rosland Campground	4,800
McKay Campground	6,300
Total value	= \$422,200